

CITY OF FREMONT, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

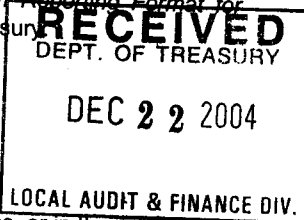
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Fremont	County Newaygo
Audit Date 6/30/04	Opinion Date 10/19/04	Date Accountant Report Submitted to State: 12/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hoffman, Steensma & Plamondon, P.L.C.			
Street Address 221 West Webster Avenue, Suite 502		City Muskegon	State MI
Accountant Signature <i>Douglas A. Plamondon, CPA</i>		ZIP 49440	Date

CITY OF FREMONT, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the
City Council of the City of Fremont, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fremont, Michigan (the "city"), as of and for the year ended June 30, 2004, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Fremont, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fremont, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note A to the financial statements, the City of Fremont, Michigan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* and GASB 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003.

The management's discussion and analysis and the required supplementary information on pages 6 - 13 and pages 52 - 59 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fremont, Michigan's basic financial statements. The accompanying supplemental financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2004, on our consideration of the City of Fremont, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit. The report is on page 69.

Hoffman, Steenema & Plamondon, P.C.C.

October 19, 2004

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis

Year Ended June 30, 2004

Our discussion and analysis of the City of Fremont's financial performance provides an overview of the city's financial activities for the year ended June 30, 2004. Please read it in conjunction with the city's financial statements, which begin on page 14.

The changes in the enclosed document have been mandated by the Governmental Accounting Standards Board (GASB) Statement 34. In the first year of implementation of this standard, GASB recognizes that prior-year information is not available in a similar format. Therefore, government-wide comparisons will not be available until next year.

Financial Highlights

- The city's total net assets increased \$1,605,825 (or 7.8%) over the previous year. Of that total, the governmental net assets increased by \$1,399,361 (15.5%) and the business-type net assets increased by \$206,464 (1.8%). The discretely presented component unit net assets increased by \$57,797 (82.6%).
- Total expenses of all of the city's programs were \$4,159,267. Of that total, the governmental expenses were \$3,191,698 and the business-type expenses were \$967,569. Expenses for component units activities were \$220,381.
- Total revenues, including all program and general revenues, were \$5,765,092, made up of governmental revenues of \$4,591,059 and business-type revenues of \$1,174,033. Revenues for the component units totaled \$66,602.
- The city substantially reduced its outstanding long-term debt by calling the remaining five years of the 1992 Water Supply System Revenue Bonds and paying them off early with available cash resources.
- The city was able to maintain the number, type and current levels of city services to its citizens with no increase in its property tax levy, even in the face of a 22.7% cut in state shared revenues and increasing operating costs.

Using this Annual Report

This annual report consists of a series of financial statements. The first two statements are government-wide financial statements that provide both long-term and short-term information about the city's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the government, reporting individual city operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short-term as well as what remains available for future spending.
- Proprietary fund statements offer short- and long-term financial information about activities that the city operates like private businesses.
- Fiduciary fund statements provide information about the financial relationships in which the city acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued

Year Ended June 30, 2004

Reporting the City as a Whole

Our analysis of the city as a whole begins on page 9. One of the most important questions asked about the city's finances is "Is the city as a whole better off or worse off as a result of the year's activities?" Since this is the first year that the City of Fremont is reporting its financial statements under the GASB 34 format, this question can not be entirely answered due to the fact that comparison data does not exist. However, the statement of net assets and the statement of activities report information about the city as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the city's net assets and changes in them. The reader may think of the city's net assets - the difference between assets and liabilities - as one way to measure the city's financial health or financial position. Over time, increases or decreases in the city's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other non-financial factors, however, such as changes in the city's property tax base and the condition of the city's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the city.

In the statement of net assets and the statement of activities, the city is divided into two kinds of activities:

- **Governmental activities** - Most of the city's basic services are reported here, including public safety, general administration, parks and recreation and streets. Property taxes and state shared revenues finance most of these activities.
- **Business-type activities** - The city charges a fee to customers to help it cover all or most of the cost of certain services provided. The city's water and sewer systems are reported here.

The statement of net assets and the statement of activities include not only the City of Fremont itself (known as the primary government), but also component units. Component units are separate legal entities for which the city has some level of financial accountability. The city has two component units: Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA). The component units exist primarily for the issuance and repayment of debt to finance projects in specific areas of the city.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued

Year Ended June 30, 2004

Reporting the City's Most Significant Funds

Our analysis of the city's major funds begins on page 11. The fund financial statements begin on page 17 and provide detailed information about the most significant funds - not the city as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The city has the following kinds of funds:

- **Governmental funds** - Most of the city's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the city's general government operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in a reconciliation following the fund financial statements.
- **Proprietary funds** - When the city charges customers for the services it provides, whether to outside customers or to other units of the city, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the city's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds, such as the city's Equipment Fund to report activities that provide supplies and services to the city's other programs and activities.
- **Fiduciary funds** - The city is the trustee, or fiduciary, for certain funds. The city is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the city's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the city's government-wide financial statements because the city cannot use these assets to finance its operations.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued

Year Ended June 30, 2004

The City as a Whole

The city's combined net assets changed from a year ago, increasing from \$20,711,217 to \$22,317,042. Our analysis focuses on the net assets and changes in net assets of the city's governmental and business-type activities.

Net assets as of June 30, 2004, follows:

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 4,116,013	\$ 2,289,821	\$ 6,405,834
Capital assets	7,595,872	9,617,832	17,213,704
Total assets	\$ 11,711,885	\$ 11,907,653	\$ 23,619,538
Long-term liabilities	\$ 944,802	\$ -	\$ 944,802
Other liabilities	326,486	31,208	357,694
Total liabilities	\$ 1,271,288	\$ 31,208	\$ 1,302,496
Net assets			
Invested in capital assets, net of related debt	\$ 6,843,387	\$ 9,617,832	\$ 16,461,219
Restricted	989,009	-	989,009
Unrestricted	2,608,201	2,258,613	4,866,814
Total net assets	\$ 10,440,597	\$ 11,876,445	\$ 22,317,042

Net assets of the city's governmental activities increased by 15.5 percent (\$10,440,597 compared to \$9,041,236). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements were \$2,608,201. Restricted net assets, those restricted mainly for capital projects and special purposes such as street maintenance and repairs were \$989,009. The investment in capital assets, net of debt category was \$6,843,387.

The net assets of our business-type activities were \$11,876,445.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued Year Ended June 30, 2004

The City as a Whole (continued)

Changes in net assets as of June 30, 2004, follows:

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 722,597	\$ 1,160,773	\$ 1,883,370
Operating grants and contributions	530,383	-	530,383
Capital grants and contributions	973,193	-	973,193
General revenues			
Property taxes	1,827,415	-	1,827,415
State shared revenues	430,436	-	430,436
Cable television fees	23,541	-	23,541
Investment earnings	50,758	12,041	62,799
Gain on disposal of capital assets	28,380	-	28,380
Other	4,356	1,219	5,575
Total revenues	4,591,059	1,174,033	5,765,092
Expenses			
Governmental activities			
Legislative	14,845	-	14,845
General government	597,733	-	597,733
Public safety	827,013	-	827,013
Public works	810,728	-	810,728
Recreation and culture	238,945	-	238,945
General administration	658,187	-	658,187
Interest on long-term debt	44,247	-	44,247
Business-type activities			
Sewer	-	545,507	545,507
Water	-	422,062	422,062
Total expenses	3,191,698	967,569	4,159,267
Change in net assets	1,399,361	206,464	1,605,825
Net assets at beginning of year	9,041,236	11,669,981	20,711,217
Net assets at end of year	\$ 10,440,597	\$ 11,876,445	\$ 22,317,042

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued

Year Ended June 30, 2004

The City as a Whole (continued)

Since this is the first year reporting under the GASB 34 format, there is not complete prior year data to compare to this year's figures. Therefore, important facts will be simply stated for both governmental and business-type activities when such comparative data does not exist.

Governmental Activities

Property tax revenues increased \$65,416 despite the negative impact of the limits placed on the city by the Headlee Amendment to the Constitution. The city's millage rate remained at 14.0 mills.

State shared revenues decreased \$48,081 due to the current economic environment and budget shortfalls at the state, which over the last three years totals a decrease of nearly \$123,000 (22.7%).

Business-Type Activities

Revenues for the city's business-type activities decreased \$88,894 while expenses decreased \$41,008. The decreases are due to a cool wet summer compared to a hot dry summer that typically requires more irrigation.

Financial Analysis of the City's Funds

At the end of fiscal year 2004, the governmental funds reported a combined fund balance of \$3,162,638, which is \$250,379 less than last year. The fund balance in the General Fund actually decreased by \$281,718, which was due to transfers to the Capital Projects Fund for park and recreation projects and the Local Streets Fund for reconstruction projects. The fund balances in the Major Streets and Local Street Funds decreased by \$23,010 and \$69,334, respectively, both due to transferring road reconstruction funds to the Capital Projects Fund. The fund balance in the Local Improvement Fund decreased \$32,330 due to the establishment of special assessments along the Connie Avenue reconstruction project. Finally, the fund balance in the Capital Projects Fund increased \$142,464, which was due to funds transferred in for projects that were not completed by June 30, 2004, but were under construction.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the city budget several times. The most significant of these budget amendments were \$943,000 for the Fremont Municipal Airport runway extension projects, \$318,900 for the construction of Phase 1a of the Town & Country Path and a \$94,760 Fire Department FEMA grant for the purchase of emergency equipment.

After these budget amendments, actual expenditures were \$199,136 below final budget amounts in the General Fund. There were no significant variances from budget to actual as most of the savings were spread across all departments.

Revenues were \$49,746 less than the amended budget. Multiple variances contribute to this difference; the largest variances were in state revenues and earned interest on investments.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued **Year Ended June 30, 2004**

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the city had \$17,213,704 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This amount includes a net increase (including additions and deductions) of \$1,115,195 or 6.9% over last year. Major capital additions include new park and recreational facilities. In addition, the city reports infrastructure assets, including roads, bridges, sidewalks and storm sewers acquired or improved since July 1, 2003. In future years, the city will also include historical infrastructure asset investments made between 1980 and 2003. Additional information on capital assets can be found in note C on page 43 of the notes to the financial statements.

Long-Term Debt

At June 30, 2004, the city had \$944,802 in long-term debt outstanding, a decrease of \$1,265,504 from last year. The major decrease in debt level is due primarily to the early call of the remaining five years of the 1992 Water Supply System Revenue Bonds. Of the above remaining debt, \$575,000 is made up of the 1992 Building Authority Revenue Bonds for the Municipal City Hall, Police and Fire Building.

In addition to the city's debt, the Local Development Finance Authority had debt outstanding totaling \$110,000. Debt issued by component units is typically secured by the full faith and credit of the city and therefore is an important consideration in assessing the city's overall fiscal health.

Additional information on long-term debt can be found in note F on page 46 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The general operating budget for next year is based on the continuation of the existing 14-mill property tax levy from this past year. The city's charter permits a maximum tax levy of 20 mills for general operating purposes, but the city has been able to keep its levy at this relatively low amount for the last five years.

Property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution commonly referred to as "Proposal A." The statewide tax reform amendment limits the growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow less than inflation.

The budget for next year also includes little change in state shared revenues, whereas state shared revenues are based on sales tax revenues, which have decreased recently with the economic downturn. The state is also in a budget crisis and continues to discuss using some of this revenue sharing to balance the state budget. In October of 2004, the state announced that if sales tax revenues come in as projected, then state shared revenues for local units would remain the same as last fiscal year.

During 2004, co-pays on prescriptions and physician office visit benefits were increased. These changes were made in an effort to control increasing costs of health care benefits for the city's full-time employees.

CITY OF FREMONT, MICHIGAN

Management's Discussion and Analysis - Continued **Year Ended June 30, 2004**

Economic Factors and Next Year's Budgets and Rates (continued)

The city has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant and increasing some user fees. A review of various user fees was conducted during the past year, from which there have been some user fee increases. The budget for 2005 reflects expenditure reductions in many departments including capital spending.

In an effort to maintain spending, the General Fund budget for next year increased by only \$20,000 over the last fiscal year. With many needed construction projects planned, a transfer of an additional \$335,405 from the fund balance of the General Fund was needed, whereas budgeted expenditures exceed budgeted revenues. The city ended the fiscal year June 30, 2004 with an undesignated fund balance of over 41 percent of budgeted operating expenditures. The budget for next year decreases the ending undesignated fund balance closer to 31 percent of operating expenditures. The General Fund budget also includes a transfer to the Local Streets Fund in the amount of \$101,250 for 50% of Local Streets construction and \$210,650 to the Capital Projects Fund for airport, parks and Major Streets projects. Currently the city's General Fund revenues are sufficient to meet operating expenditures.

The Major Streets Fund includes a transfer of \$1,291,000 to the Capital Projects Fund for construction of the Southside Alternate Truck Route and reconstruction of Green Avenue in coordination with the Newaygo County Road Commission. Construction of the Truck Route will be made possible by proceeds from the sale of general obligation bonds.

The Local Streets Fund includes a transfer of \$202,500 to the Capital Projects Fund for various street reconstruction and resurfacing projects and design work needed for future construction.

For the city's business-type activities, the budget for next year holds water and sewer rates constant. The Water Fund budget includes over \$405,000 in capital project construction and engineering as well as an additional \$75,000 for water system security upgrades as recommended by the Vulnerability Assessment Study and \$20,000 for the design and testing of a new well site.

Contacting the City's Financial Management Staff

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director/Clerk's Office at 101 E. Main Street, Fremont, Michigan 49412 or by phone at 231-924-2101 or email at tblake@cityoffremont.net.

CITY OF FREMONT, MICHIGAN

Statement of Net Assets

June 30, 2004

ASSETS	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash and cash equivalents (note A5 and B)	\$ 1,392,990	\$ 1,040,842	\$ 2,433,832
Investments (note A5 and B)	2,347,708	942,289	3,289,997
Receivables			
Accounts	66,568	306,690	373,258
Special assessments	47,955	-	47,955
Due from other governmental units	260,792	-	260,792
	4,116,013	2,289,821	6,405,834
Capital assets (note A7 and C)			
Land, construction in progress and other assets not being depreciated	3,670,929	246,514	3,917,443
Other capital assets, net of depreciation	3,924,943	9,371,318	13,296,261
Total capital assets	7,595,872	9,617,832	17,213,704
TOTAL ASSETS	\$ 11,711,885	\$ 11,907,653	\$ 23,619,538

The notes to the financial statements are an integral part of this statement.

Component Units	Total Reporting Entity
\$ 126,997	\$ 2,560,829
112,359	3,402,356
-	373,258
-	47,955
-	260,792
<u>239,356</u>	<u>6,645,190</u>

-	3,917,443
-	13,296,261
-	<u>17,213,704</u>
<u>\$ 239,356</u>	<u>\$ 23,858,894</u>

CITY OF FREMONT, MICHIGAN

Statement of Net Assets - Continued

June 30, 2004

LIABILITIES AND NET ASSETS	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Liabilities			
Accounts payable	\$ 282,553	\$ 4,440	\$ 286,993
Accrued liabilities	43,933	26,768	70,701
	326,486	31,208	357,694
Long-term liabilities (note A8, A9 and F)			
Due within one year			
Bonds payable	265,993	-	265,993
Compensated absences	19,232	-	19,232
Due in more than one year			
Bonds payable	486,491	-	486,491
Compensated absences	173,086	-	173,086
Total long-term liabilities	944,802	-	944,802
Total liabilities	1,271,288	31,208	1,302,496
Net assets			
Invested in capital assets, net of related debt	6,843,387	9,617,832	16,461,219
Restricted for			
Streets and highways	715,147	-	715,147
Perpetual care			
Non-expendable	255,021	-	255,021
Debt service	18,841	-	18,841
Unrestricted	2,608,201	2,258,613	4,866,814
Total net assets	10,440,597	11,876,445	22,317,042
TOTAL LIABILITIES AND NET ASSETS	\$ 11,711,885	\$ 11,907,653	\$ 23,619,538

The notes to the financial statements are an integral part of this statement.

Component Units	Total Reporting Entity
\$ -	\$ 286,993
1,600	72,301
1,600	359,294
55,000	320,993
-	19,232
55,000	541,491
-	173,086
110,000	1,054,802
111,600	1,414,096
-	16,461,219
-	715,147
-	255,021
-	18,841
127,756	4,994,570
127,756	22,444,798
\$ 239,356	\$ 23,858,894

CITY OF FREMONT, MICHIGAN

Statement of Activities

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Legislative	\$ 14,845	\$ -	\$ -	\$ -
General government	597,733	104,930	24,731	211,576
Public safety	827,013	243,103	11,412	76,017
Public works	810,728	275,239	469,515	685,600
Recreation and culture	238,945	99,325	24,725	-
General administration	658,187	-	-	-
Interest on long-term debt	44,247	-	-	-
Total governmental activities	3,191,698	722,597	530,383	973,193
Business-type activities				
Sewer	545,507	409,584	-	-
Water	422,062	751,189	-	-
Total business-type activities	967,569	1,160,773	-	-
Total primary government	4,159,267	1,883,370	530,383	973,193
Component units				
Downtown Development Authority	211,576	-	-	-
Local Development Finance Authority	8,805	-	-	-
Total component units	220,381	-	-	-
Total reporting entity	\$ 4,379,648	\$ 1,883,370	\$ 530,383	\$ 973,193

General revenues
Property taxes
State shared revenues
Cable television fees
Investment earnings
Gain on disposal of capital assets
Other

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

The notes to the financial statements are an integral part of this statement.

Primary Government				
Net (Expense) Revenue and				
Changes in Net Assets				
Governmental Activities	Business- Type Activities	Total	Component Units	Total Reporting Entity
\$ (14,845)	\$ -	\$ (14,845)	\$ -	\$ (14,845)
(256,496)	-	(256,496)	-	(256,496)
(496,481)	-	(496,481)	-	(496,481)
619,626	-	619,626	-	619,626
(114,895)	-	(114,895)	-	(114,895)
(658,187)	-	(658,187)	-	(658,187)
(44,247)	-	(44,247)	-	(44,247)
(965,525)	-	(965,525)	-	(965,525)
-	(135,923)	(135,923)	-	(135,923)
-	329,127	329,127	-	329,127
-	193,204	193,204	-	193,204
(965,525)	193,204	(772,321)	-	(772,321)
-	-	-	(211,576)	(211,576)
-	-	-	(8,805)	(8,805)
-	-	-	(220,381)	(220,381)
(965,525)	193,204	(772,321)	(220,381)	(992,702)
1,827,415	-	1,827,415	276,382	2,103,797
430,436	-	430,436	-	430,436
23,541	-	23,541	-	23,541
50,758	12,041	62,799	1,796	64,595
28,380	-	28,380	-	28,380
4,356	1,219	5,575	-	5,575
2,364,886	13,260	2,378,146	278,178	2,656,324
1,399,361	206,464	1,605,825	57,797	1,663,622
9,041,236	11,669,981	20,711,217	69,959	20,781,176
\$ 10,440,597	\$ 11,876,445	\$ 22,317,042	\$ 127,756	\$ 22,444,798

CITY OF FREMONT, MICHIGAN

Governmental Funds

Balance Sheet

June 30, 2004

ASSETS			
	General	Major Streets	Local Streets
Cash and cash equivalents (note A5 and B)	\$ 121,455	\$ 195,608	\$ 87,279
Investments (note A5 and B)	1,218,303	177,091	79,017
Receivables (note A6)			
Accounts	66,568	-	-
Special assessments	-	-	-
Advances to other funds (note D)	-	-	-
Due from other governmental units	139,104	43,405	15,283
TOTAL ASSETS	\$ 1,545,430	\$ 416,104	\$ 181,579
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 21,088	\$ -	\$ -
Accrued liabilities	38,733	-	-
Advances from other funds (note D)	89,260	-	-
Deferred revenue	-	-	-
Total liabilities	149,081	-	-
Fund balances (note A10)			
Reserved for perpetual care	-	-	-
Reserved for advances	-	-	-
Unreserved			
Undesignated, reported in			
General fund	1,396,349	-	-
Special revenue funds	-	416,104	181,579
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total fund balances	1,396,349	416,104	181,579
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,545,430	\$ 416,104	\$ 181,579

The notes to the financial statements are an integral part of this statement.

Local Improvement	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 328,021	\$ 193,800	\$ 158,579	\$ 1,084,742
296,969	175,455	121,802	2,068,637
-	-	-	66,568
47,955	-	-	47,955
89,260	-	-	89,260
-	63,000	-	260,792
\$ 762,205	\$ 432,255	\$ 280,381	\$ 3,617,954

\$ -	\$ 261,465	\$ -	\$ 282,553
-	-	-	38,733
-	-	-	89,260
47,560	-	-	47,560
47,560	261,465	-	458,106

-	-	255,021	255,021
89,260	-	-	89,260
-	-	-	1,396,349
625,385	-	1,319	1,224,387
-	-	24,041	24,041
-	170,790	-	170,790
714,645	170,790	280,381	3,159,848
\$ 762,205	\$ 432,255	\$ 280,381	\$ 3,617,954

CITY OF FREMONT, MICHIGAN

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities June 30, 2004

Total governmental fund balances		\$ 3,159,848
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 8,678,423	
Accumulated depreciation	<u>(1,870,570)</u>	6,807,853
Special assessments are recognized as received in the governmental funds. They are recognized in full when assessed for the government-wide statements and therefore no deferred revenue is recorded.		
		47,560
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Governmental bonds payable	(598,775)	
Accrued interest on the bonds	(5,200)	
Compensated absences	<u>(192,318)</u>	(796,293)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.		
		1,221,629
Net assets of governmental activities		\$ 10,440,597

The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2004

	General	Major Streets	Local Streets
Revenues			
Property taxes	\$ 1,742,129	\$ -	\$ -
Licenses and permits	27,309	-	-
Federal grants	76,017	-	-
State revenues	435,681	283,225	103,711
Local grants and contributions	-	-	-
Charges for services	456,797	-	-
Fines and penalties	65,020	-	-
Rental income	156,366	-	-
Interest	32,506	1,902	-
Other	82,753	56,638	-
Total revenues	3,074,578	341,765	103,711
Expenditures			
Current			
Legislative	14,845	-	-
General government	514,460	-	-
Public safety	829,616	-	-
Public works	597,550	155,775	81,393
Recreation and culture	127,881	-	-
Other functions	660,751	-	-
Capital outlay	185,511	-	-
Debt service			
Principal	23,304	-	-
Interest and fiscal charges	7,411	-	-
Total expenditures	2,961,329	155,775	81,393
Excess (deficiency) of revenues over expenditures	113,249	185,990	22,318
Other financing sources (uses)			
Transfers in	33,291	-	277,348
Transfers in - component units	-	-	-
Transfers out	(428,258)	(209,000)	(369,000)
Total other financing sources (uses)	(394,967)	(209,000)	(91,652)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(281,718)	(23,010)	(69,334)
Fund balances at beginning of year	1,678,067	439,114	250,913
Fund balances at end of year	\$ 1,396,349	\$ 416,104	\$ 181,579

The notes to the financial statements are an integral part of this statement.

Local Improvement	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,742,129
-	-	-	27,309
-	449,100	-	525,117
-	21,450	-	844,067
-	215,050	24,725	239,775
-	-	13,515	470,312
-	-	-	65,020
-	-	-	156,366
10,361	428	8,824	54,021
66,033	-	-	205,424
76,394	686,028	47,064	4,329,540
-	-	-	14,845
-	-	-	514,460
-	-	-	829,616
-	641,394	-	1,476,112
-	76,163	-	204,044
-	-	-	660,751
-	663,641	-	849,152
-	-	175,000	198,304
-	-	36,800	44,211
-	1,381,198	211,800	4,791,495
76,394	(695,170)	(164,736)	(461,955)
-	837,634	-	1,148,273
-	-	211,576	211,576
(108,724)	-	(33,291)	(1,148,273)
(108,724)	837,634	178,285	211,576
(32,330)	142,464	13,549	(250,379)
746,975	28,326	266,832	3,410,227
\$ 714,645	\$ 170,790	\$ 280,381	\$ 3,159,848

CITY OF FREMONT, MICHIGAN

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net change in fund balances - total governmental funds		\$ (250,379)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	\$ 1,503,366	
Current year depreciation	<u>(192,946)</u>	1,310,420
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
Gain on sale of capital assets	14,270	
Less net proceeds from sale of capital assets	<u>(19,770)</u>	(5,500)
Special assessment revenue for prior years assessments would be recorded as revenue in the year it was assessed for the government-wide financial statements.		
		42,691
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments	198,304	
Change in accrued interest on the bonds	2,550	
Change in long-term compensated absences	<u>(21,445)</u>	179,409
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		
		122,720
Change in net assets of governmental activities		\$ 1,399,361

The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN

Proprietary Funds

Statement of Fund Net Assets

June 30, 2004

	Business-Type Activities	
	Sewer	Water
ASSETS		
Current assets		
Cash and cash equivalents (note A5 and B)	\$ 552,184	\$ 488,658
Investments (note A5 and B)	499,890	442,399
Accounts receivable	119,571	187,119
Total current assets	1,171,645	1,118,176
Noncurrent assets		
Capital assets (note A7 and C)		
Land, construction in progress and other assets not being depreciated	228,972	17,542
Other capital assets, net of depreciation	5,806,596	3,564,722
Total noncurrent assets	6,035,568	3,582,264
TOTAL ASSETS	\$ 7,207,213	\$ 4,700,440
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Current maturities of long-term debt	\$ -	\$ -
Accounts payable	1,101	3,339
Accrued liabilities	5,732	21,036
Total current liabilities	6,833	24,375
Noncurrent liabilities		
Long-term debt, less current maturities (note A9 and F)	-	-
Total liabilities	6,833	24,375
Net assets		
Invested in capital assets, net of related debt	6,035,568	3,582,264
Unrestricted	1,164,812	1,093,801
Total net assets	7,200,380	4,676,065
TOTAL LIABILITIES AND NET ASSETS	\$ 7,207,213	\$ 4,700,440

The notes to the financial statements are an integral part of this statement.

Business-Type Activities	Governmental Activities
Totals	Internal Service
\$ 1,040,842	\$ 308,248
942,289	279,071
306,690	-
<u>2,289,821</u>	<u>587,319</u>

246,514	-
<u>9,371,318</u>	<u>788,019</u>
9,617,832	788,019
<u>\$ 11,907,653</u>	<u>\$ 1,375,338</u>

\$ -	\$ 67,000
4,440	-
<u>26,768</u>	<u>-</u>
31,208	67,000

-	86,709
<u>31,208</u>	<u>153,709</u>

9,617,832	634,310
<u>2,258,613</u>	<u>587,319</u>
11,876,445	1,221,629
<u>\$ 11,907,653</u>	<u>\$ 1,375,338</u>

CITY OF FREMONT, MICHIGAN

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year Ended June 30, 2004

	Business-Type Activities	
	Sewer	Water
Operating revenues		
Charges for services	\$ 401,879	\$ 742,261
Connection fees	-	2,115
Sale of meters	-	6,813
Equipment rentals	-	-
Other	8,858	66
Total operating revenues	410,737	751,255
Operating expenses		
Operations	240,672	257,546
Administration and general	64,757	65,301
Depreciation	240,078	74,477
Total operating expenses	545,507	397,324
Operating income (loss)	(134,770)	353,931
Nonoperating revenues (expenses)		
Interest income	8,357	3,684
Gain on sale of capital assets	-	-
Interest expense	-	(24,738)
Total nonoperating revenues (expenses)	8,357	(21,054)
Change in net assets	(126,413)	332,877
Net assets at beginning of year	7,326,793	4,343,188
Net assets at end of year	\$ 7,200,380	\$ 4,676,065

The notes to the financial statements are an integral part of this statement.

Business-Type Activities	Governmental Activities
Totals	Internal Service
\$ 1,144,140	\$ -
2,115	-
6,813	-
-	407,215
8,924	842
<u>1,161,992</u>	<u>408,057</u>
498,218	98,384
130,058	21,162
314,555	175,955
<u>942,831</u>	<u>295,501</u>
219,161	112,556
12,041	3,557
-	14,110
<u>(24,738)</u>	<u>(7,503)</u>
<u>(12,697)</u>	<u>10,164</u>
206,464	122,720
<u>11,669,981</u>	<u>1,098,909</u>
<u>\$ 11,876,445</u>	<u>\$ 1,221,629</u>

CITY OF FREMONT, MICHIGAN

Proprietary Funds

Statement of Cash Flows

Year Ended June 30, 2004

	Business-Type Activities	
	Sewer	Water
Cash flows from operating activities		
Receipts from customers	\$ 415,254	\$ 772,387
Receipts from interfund services provided	-	-
Payments to suppliers	(97,702)	(153,568)
Payments to employees	(151,382)	(172,133)
Payments for internal services used	(56,749)	(19,812)
Net cash provided by operating activities	109,421	426,874
Cash flows from capital and related financing activities		
Purchase of capital assets	(81,978)	(120,982)
Proceeds from sale of capital assets	-	-
Principal paid on long-term debt	-	(1,025,000)
Interest paid on long-term debt	-	(24,738)
Net cash used for capital and related financing activities	(81,978)	(1,170,720)
Cash flows from investing activities		
Interest income	8,357	3,684
(Increase) decrease in investments	(79,366)	55,588
Net cash provided by (used for) investing activities	(71,009)	59,272
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(43,566)	(684,574)
Cash and cash equivalents at beginning of year	595,750	1,173,232
Cash and cash equivalents at end of year	\$ 552,184	\$ 488,658

The notes to the financial statements are an integral part of this statement.

Business-Type Activities	Governmental Activities
Totals	Internal Service
\$ 1,187,641	\$ -
-	408,057
(251,270)	(98,384)
(323,515)	(21,162)
(76,561)	-
536,295	288,511
(202,960)	(103,479)
-	19,760
(1,025,000)	(62,702)
(24,738)	(7,503)
(1,252,698)	(153,924)
12,041	3,557
(23,778)	(93,202)
(11,737)	(89,645)
(728,140)	44,942
1,768,982	263,306
\$ 1,040,842	\$ 308,248

CITY OF FREMONT, MICHIGAN

Proprietary Funds

Statement of Cash Flows - Continued

Year Ended June 30, 2004

	Business-Type Activities	
	Sewer	Water
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (134,770)	\$ 353,931
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	240,078	74,477
Decrease in accounts receivable	4,517	21,132
Increase (decrease) in		
Accounts payable	(404)	1,615
Accrued liabilities	-	(24,281)
Net cash provided by operating activities	\$ 109,421	\$ 426,874

The notes to the financial statements are an integral part of this statement.

<u>Business-Type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 219,161	\$ 112,556
314,555	175,955
25,649	-
1,211	-
(24,281)	-
<u>\$ 536,295</u>	<u>\$ 288,511</u>

CITY OF FREMONT, MICHIGAN

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2004

		Agency Funds
ASSETS		
Cash and cash equivalents (note A5 and B)	\$	4,409
Investments (note A5 and B)		3,991
Accounts receivable		407
Due from other governmental units		6,789
TOTAL ASSETS	\$	15,596
LIABILITIES		
Accounts payable	\$	10,444
Other liabilities		5,152
TOTAL LIABILITIES	\$	15,596

The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN**Discretely Presented Component Units****Statement of Net Assets**

June 30, 2004

	Downtown Development Authority	Local Development Finance Authority	Totals
ASSETS			
Cash and cash equivalents (note A5 and B)	\$ 54,356	\$ 72,641	\$ 126,997
Investments (note A5 and B)	49,210	63,149	112,359
TOTAL ASSETS	\$ 103,566	\$ 135,790	\$ 239,356
LIABILITIES AND NET ASSETS			
Liabilities			
Accrued liabilities	\$ -	\$ 1,600	\$ 1,600
Long-term liabilities (note A9 and F)			
Due within one year			
Bonds payable	-	55,000	55,000
Due in more than one year			
Bonds payable	-	55,000	55,000
Total long-term liabilities	-	110,000	110,000
Total liabilities	-	111,600	111,600
Net assets			
Unrestricted	103,566	24,190	127,756
TOTAL LIABILITIES AND NET ASSETS	\$ 103,566	\$ 135,790	\$ 239,356

The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN
Discretely Presented Component Units
Statement of Activities
Year Ended June 30, 2004

		<u>Net (Expense) Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Downtown Development Authority</u>
Downtown Development Authority		
General government	\$ 211,576	\$ (211,576)
Local Development Finance Authority		
Other governmental functions	150	-
Interest on long-term debt	8,655	-
Total Local Development Finance Authority	8,805	-
Total discretely presented component units	\$ 220,381	(211,576)
General revenues		
Property taxes		211,576
Interest		758
Total general revenues		212,334
Change in net assets		758
Net assets at beginning of year		102,808
Net assets at end of year		\$ 103,566

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets	
Local Development Finance Authority	
	Totals
\$ -	\$ (211,576)
(150)	(150)
(8,655)	(8,655)
(8,805)	(8,805)
(8,805)	(220,381)
64,806	276,382
1,038	1,796
65,844	278,178
57,039	57,797
(32,849)	69,959
\$ 24,190	\$ 127,756

CITY OF FREMONT, MICHIGAN

Discretely Presented Component Units

Balance Sheet

June 30, 2004

	Downtown Development Authority	Local Development Finance Authority
		Operating
ASSETS		
Cash and cash equivalents (note A5 and B)	\$ 54,356	\$ 69,753
Investments (note A5 and B)	49,210	63,149
TOTAL ASSETS	\$ 103,566	\$ 132,902
FUND BALANCES		
Unreserved	\$ 103,566	\$ 132,902

The notes to the financial statements are an integral part of this statement.

Local Development Finance Authority		
Debt Retirement	Totals	
\$ 2,888	\$ 126,997	
-	112,359	
<hr/>		
\$ 2,888	\$ 239,356	
<hr/>		
\$ 2,888	\$ 239,356	
<hr/>		

CITY OF FREMONT, MICHIGAN

Discretely Presented Component Units

Reconciliation of Total Discretely Presented Component Unit Fund Balances to

Net Assets of Discretely Presented Component Unit Activities

June 30, 2004

Total discretely presented component unit fund balances		\$	239,356
Amounts reported for discretely component unit activities in the statement of net assets are different because:			
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the discretely presented component unit funds.			
Discretely presented component unit bonds payable	\$	(110,000)	
Accrued interest on the bonds		(1,600)	(111,600)
<hr/>			
Net assets of discretely presented component unit activities		\$	127,756

The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN

Discretely Presented Component Units

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2004

	Downtown Development Authority	Local Development Finance Authority
		Operating
Revenues		
Property taxes	\$ 211,576	\$ 64,806
Interest	758	935
Total revenues	212,334	65,741
Expenditures		
Current		
Other governmental functions	-	150
Debt service		
Principal	-	-
Interest and fiscal charges	-	-
Total expenditures	-	150
Excess (deficiency) of revenues over expenditures	212,334	65,591
Other financing sources (uses)		
Transfers in - component units	-	-
Transfers out - primary government	(211,576)	-
Transfers out - component units	-	(64,806)
Total other financing sources (uses)	(211,576)	(64,806)
Excess of revenues and other sources over expenditures and other uses	758	785
Fund balances at beginning of year	102,808	132,117
Fund balances at end of year	\$ 103,566	\$ 132,902

The notes to the financial statements are an integral part of this statement.

Local Development Finance Authority			
Debt Retirement		Totals	
\$	-	\$	276,382
	103		1,796
	103		278,178
	-		150
	55,000		55,000
	9,405		9,405
	64,405		64,555
	(64,302)		213,623
	64,806		64,806
	-		(211,576)
	-		(64,806)
	64,806		(211,576)
	504		2,047
	2,384		237,309
\$	2,888	\$	239,356

CITY OF FREMONT, MICHIGAN

Discretely Presented Component Units

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Discretely Presented Component Units to the Statement of Activities Year Ended June 30, 2004

Net change in fund balances - total discretely presented component unit funds	\$	2,047
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Amounts reported for discretely presented component unit activities in the statement of activities are different because:

The issuance of long-term debt provides current financial resources to discretely presented component unit funds, while the repayment of the principal of long-term debt consumes the current financial resources of discretely presented component unit funds. Neither transaction, however, has any effect on net assets. Also, discretely presented component units report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments	\$	55,000	
Change in accrued interest on the bonds		750	55,750

Change in net assets of discretely presented component unit activities	\$	57,797
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The notes to the financial statements are an integral part of this statement.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements

June 30, 2004

Note A - Summary of Significant Accounting Policies

The accounting policies of the City of Fremont, Michigan (the "city"), conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the city the option of electing to apply FASB pronouncements issued after November 30, 1989. The city has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the city are discussed below.

The city adopted GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* as of July 1, 2003. Certain of the significant changes in GASB 34 include the following:

- A Management's Discussion and the Analysis (MD&A) section providing an analysis of the city's overall financial position and results of operation.
- Government-wide financial statements prepared using full accrual accounting for all of the city's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on major funds.

The city also adopted GASB 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003. GASB 38 modifies note disclosures required by GAAP. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of any of the city's funds as of and for the year ended June 30, 2004, but did change some of the disclosures required for the notes to the financial statements.

1. Financial Reporting Entity

The City of Fremont, Michigan was incorporated in 1911. The city operates under a Council-Manager form of government and provides the following services as authorized by its charter: legislative, general government, public safety (police and fire), public works, recreation and culture, public improvements and general administration services.

As required by GASB 14, the financial statements present the city (the primary government) and its component units, entities for which the city is considered to be financially accountable. The component units discussed below are included in the city's reporting entity because of their operational and financial relationship with the city.

Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the city operations and data from these units are combined with data from the primary government. The blended component unit has a June 30 year end.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

1. Financial Reporting Entity (continued)

Blended Component Units (continued)

•City of Fremont Building Authority

The building authority is appointed by the city council and its activity is dependent on city council actions. The building authority is reported as if it were part of the primary government because its sole purpose is to finance the construction of the city's public buildings. The authority's activity is reported in the financial statements as a debt service fund.

Discretely Presented Component Units

The discretely presented component units column in the combined financial statements includes the financial data of the city's discretely presented component units. These units are reported in a separate column to emphasize that they are legally separate from the city. The discretely presented component units have a June 30 year end.

•City of Fremont Downtown Development Authority (DDA)

The authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the city and the authority is fiscally dependent on the city since the council approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

•City of Fremont Local Development Financing Authority (LDFA)

The authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and construction of public facilities to promote and facilitate economic growth in the city. Members of the LDFA are appointed by the city and the authority is fiscally dependent on the city since the council approves the LDFA budget and must approve any debt issuance. The LDFA is presented as a governmental fund type.

Separate financial statements for the individual component units have not been issued.

2. Basis of Accounting - Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the city as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

2. Basis of Accounting - Government-Wide Financial Statements (continued)

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the city and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the city.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Basis of Accounting - Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

The city reports the following major funds:

General Fund

The general fund is the general operating fund of the city. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Streets Fund - To account for gas and weight tax allocations to the city by the Michigan Department of Transportation for construction and maintenance of major streets within the city.

Local Streets Fund - To account for gas and weight tax allocations to the city by the Michigan Department of Transportation for construction and maintenance of local streets within the city.

Local Improvement Fund - To account for amounts collected and receivable in conjunction with various special assessments for several city construction projects.

Capital Projects Fund

Capital Projects Fund - To account for the expenditure of the city's funds for major capital projects.

Enterprise Funds

Sewer Fund - To account for user charges, operating expenses and debt service of the city's sewer system.

Water Fund - To account for user charges, operating expenses and debt service of the city's water system.

The following is a description of the three major categories and various fund types within those categories into which the funds are grouped:

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

Governmental Funds (continued)

Revenue Recognition

"Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The city considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition

The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the city:

General Fund

The general fund is the general operating fund of the city. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds

Debt service funds are used to record the funding and payment of principal, interest and related expenses in connection with certain long-term debt other than debt payable from the operations of the proprietary funds.

Capital Projects Funds

Capital projects funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Permanent Funds

The permanent funds are used to account for the assets of legal trust agreements held by the city as trustee for which only the income on the principal may be spent.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds and of the city's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the city:

Enterprise Funds

Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds

Internal service funds are used to record the financing of goods or services provided by the city to other departments and funds or to other governmental units on a cost reimbursement basis.

Fiduciary Funds (Not Included in Government-Wide Financial Statements)

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support city programs.

Agency Fund

The agency fund is used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The city follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before the third Monday in May, the city manager submits to the city council a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted at the city hall to obtain taxpayer comments.
- The budget is legally adopted by resolution not later than the second regular meeting in June.
- The city manager is authorized to transfer budgeted amounts between accounts within the same department of any fund. The transfer of budgeted amounts between departments within any fund or any revisions that alter the total expenditures of any fund must be approved by council.
- Budgeted amounts are presented as originally adopted, or as amended by the city council before June 30, 2004. Individual amendments were not material in relation to the original appropriations.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- Appropriations are authorized by ordinance generally at the department level. Administrative control is maintained through the establishment of a more detailed line-item budget.
- Budgets as presented are prepared on the modified accrual basis of accounting.
- All budgetary appropriations lapse at the end of the year.

5. Deposits and Investments

Statutes authorized the primary government and component units to deposit and invest in the following:

- In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

5. Deposits and Investments (continued)

- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures no more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptances of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The city maintains a cash pool that is available for use by all funds and component units. Each fund types "or component units" portion of the pool is reported as "cash and cash equivalents" and "investments".

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

6. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Property taxes attach as enforceable liens on property as of July 1. Taxes are levied on July 1 and are payable from the date of levy through August 10 and are recognized as revenue when they are levied. The city bills and collects its own property taxes and also taxes for the county and the school district in the city. Collections of taxes and remittance of them to other taxing authorities are accounted for in the trust and agency fund.

The 2003 adjusted taxable value of the city totaled \$115,985,285 on which ad valorem taxes levied consisted of 14.000 mills for the general operations of the city.

The 2003 state equalized valuation of the city was \$146,023,050.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

7. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Water and sewage systems	40 - 75
Buildings and improvements	3 - 20
Motor vehicles and equipment	5 - 30
Infrastructure	5 - 20

GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The city has capitalized infrastructure since July 1, 2003 when GASB 34 was implemented, and has reported the infrastructure in the statement of net assets. The city will retroactively capitalize the major infrastructure assets on or before June 30, 2008, as permitted by GASB 34.

8. Compensated Absences

City employees are granted vacation and sick leave. The city follows the accounting and reporting principles outlined in GASB 16, with regards to employees' vacation and sick leave.

Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental funds only for employee termination as of year-end while the proprietary funds report the liability as it is incurred.

9. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

9. Long-Term Obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose.

Note B - Cash, Cash Equivalents and Investments

Deposits

At year end, the carrying amount of the primary government and component units' deposits was \$2,598,062 and the bank balance was \$2,624,940. Of the bank balance, \$2,040,233 was covered by federal depository insurance and \$584,707 was uninsured and uncollateralized.

Deposits are categorized below according to level of credit risk:

- Category 1 represents insured or collateralized deposits with securities held by the entity or by its agent in the entity's name.

- Category 2 represents the city's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the city's name.

- Category 3 represents the city's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the city's name.

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Demand deposits	\$ -	\$ -	\$ -	\$ -	\$ 371
Time deposits	1,591,118	-	1,033,822	2,624,940	2,597,691
	\$ 1,591,118	\$ -	\$ 1,033,822	\$ 2,624,940	\$ 2,598,062

Investments

Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year end:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or by its agent in the entity's name.

- Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the entity's name.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note B - Cash, Cash Equivalents and Investments (continued)

Investments (continued)

•Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

	Category			Carrying Amount
	1	2	3	
U.S. Government Securities	\$ 808,656	\$ -	\$ -	\$ 808,656

Investments not subject to categorization:

Money market funds

2,564,867
\$ 3,373,523

Total deposits and investments at June 30, 2004, were \$5,971,585 and are presented as follows:

Balance Sheet Classification	Combined Total
Governmental Funds Balance Sheet	
Cash and cash equivalents	\$ 1,084,742
Investments	2,068,637
Statement of Fund Net Assets - Proprietary Funds	
Enterprise Funds	
Cash and cash equivalents	1,040,842
Investments	942,289
Internal Service Fund	
Cash and cash equivalents	308,248
Investments	279,071
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	4,409
Investments	3,991
Discretely Presented Component Units Balance Sheet	
Cash and cash equivalents	126,997
Investments	112,359
	\$ 5,971,585

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities				
Capital assets being depreciated				
Land improvements	\$ 271,011	\$ 20,574	\$ -	\$ 291,585
Buildings	3,395,384	-	-	3,395,384
Building improvements	57,335	8,226	-	65,561
Vehicles and equipment	2,543,367	290,124	(162,311)	2,671,180
Infrastructure	-	640,633	-	640,633
Total capital assets being depreciated	6,267,097	959,557	(162,311)	7,064,343
Less accumulated depreciation				
Land improvements	103,486	13,867	-	117,353
Buildings	1,458,399	101,541	-	1,559,940
Building improvements	18,329	3,278	-	21,607
Vehicles and equipment	1,346,946	226,609	(156,661)	1,416,894
Infrastructure	-	23,606	-	23,606
Total accumulated depreciation	2,927,160	368,901	(156,661)	3,139,400
Net capital assets being depreciated	3,339,937	590,656	(5,650)	3,924,943
Capital assets not being depreciated				
Land	2,800,680	-	(5,500)	2,795,180
Construction in progress	228,465	936,985	(289,701)	875,749
Total capital assets not being depreciated	3,029,145	936,985	(295,201)	3,670,929
Total governmental activities capital assets net of depreciation	\$ 6,369,082	\$ 1,527,641	\$ (300,851)	\$ 7,595,872
Business-type activities				
Capital assets being depreciated				
Buildings	\$ 3,456,339	\$ -	\$ -	\$ 3,456,339
Equipment	127,904	7,800	-	135,704
Sewer system	5,494,679	74,179	-	5,568,858
Storage tank	133,478	-	-	133,478
Water system	1,579,087	118,345	-	1,697,432
Water supply system	2,832,486	-	-	2,832,486
Wells	186,557	-	-	186,557
Total capital assets being depreciated	13,810,530	200,324	-	14,010,854

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note C - Capital Assets (continued)

Less accumulated depreciation				
Buildings	\$ 2,503,543	\$ 85,808	\$ -	\$ 2,589,351
Equipment	60,523	17,305	-	77,828
Sewer system	540,912	137,676	-	678,588
Storage tank	120,130	3,337	-	123,467
Water system	599,821	24,681	-	624,502
Water supply system	421,055	42,276	-	463,331
Wells	78,997	3,472	-	82,469
Total accumulated depreciation	4,324,981	314,555	-	4,639,536
Net capital assets being depreciated	9,485,549	(114,231)	-	9,371,318
Capital assets not being depreciated				
Land	240,698	-	-	240,698
Construction in progress	3,180	2,636	-	5,816
Total capital assets not being depreciated	243,878	2,636	-	246,514
Total business-type activities capital assets net of depreciation	\$ 9,729,427	\$ (111,595)	\$ -	\$ 9,617,832

Depreciation was charged to programs of the city as follows:

Governmental activities	
General government	\$ 91,815
Public safety	24,259
Public works	36,378
Recreation and culture	40,494
Internal service fund depreciation is charged to the various programs based on their usage of the assets	175,955
Total governmental activities depreciation expense	\$ 368,901
Business-type activities	
Sewer	\$ 240,078
Water	74,477
Total business-type activities depreciation expense	\$ 314,555

Note D - Interfund Receivables and Payables

The amounts of interfund advances to and from other funds at June 30, 2004, were as follows:

Fund	Advances Receivable	Fund	Advances Payable
Local improvement	\$ 89,260	General	\$ 89,260

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note D - Interfund Receivables and Payables (continued)

The advance represents the balance of an interfund loan from the local improvement fund to the general fund in the fiscal year ended June 30, 1997 in the amount of \$150,000 that is due in 2012. The purpose of the loan was to build a T-hangar at the municipal airport. The loan is payable in annual installments of \$12,190 to \$14,000 including interest at 5.00%.

Note E - Interfund Transfers

Interfund transfers consisted of the following at June 30, 2004:

Fund	Transfers In	Fund	Transfers Out
Primary Government General	\$ 33,291	Primary Government Cemetery Perpetual Care Arboretum Park Trust	\$ 8,566 24,725
	33,291		33,291
Local Streets	277,348	General Major Streets	218,348 59,000
	277,348		277,348
Capital Projects	837,634	General Major Streets Local Streets Local Improvement	209,910 150,000 369,000 108,724
	837,634		837,634
Primary Government Building Authority	211,576	Component Unit Downtown Development Authority	211,576
Component Unit LDFA Bond Retirement	64,806	Component Unit LDFA Operating	64,806
Total Reporting Entity	\$ 1,424,655	Total Reporting Entity	\$ 1,424,655

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note F - Long-Term Debt

Long-term debt at June 30, 2004, consisted of the following:

Governmental Activities

\$2,350,000 - 1992 Building Authority Revenue Bonds; due in annual installments of \$175,000 to \$200,000 through June 2007; interest at 4.00% to 5.75%. \$ 575,000

\$116,000 - 2000 Installment Sales Contract - due in an installment of \$23,776 in July 2004; interest at 5.20%. 23,776

\$133,878 - 1999 Installment Sales Contract - due in an installment of \$25,501 in September 2004; interest at 4.75%. 25,501

\$169,000 - 2003 Installment Sales Contract - due in annual installments of \$41,716 to \$43,732 through June 2007; interest at 2.50%. 128,207
Total bonds and loans payable 752,484

Long-term compensated absences 192,318
Total governmental activities long-term liabilities \$ 944,802

Discretely Presented Component Units

\$855,000 - 1993 General Obligation Limited Tax Bonds; due in annual installments of \$55,000 through April 2006; interest at 5.70% to 5.80%. \$ 110,000

Total reporting entity long-term liabilities \$ 1,054,802

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2004, including interest of \$68,867 follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Discretely Presented Component Units</u>	
	Principal	Interest	Principal	Interest
2005	\$ 265,993	\$ 32,090	\$ 55,000	\$ 6,326
2006	242,759	18,165	55,000	3,190
2007	243,732	9,096	-	-
	\$ 752,484	\$ 59,351	\$ 110,000	\$ 9,516

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note F - Long-Term Debt (continued)

The following is a summary of bonds and loans and compensated absences transactions for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Repayments	Balance June 30, 2004
Primary government				
Governmental bonds and loans	\$ 1,014,433	\$ -	\$ (261,949)	\$ 752,484
Business-type bonds and loans	1,025,000	-	(1,025,000)	-
Long-term compensated absences	170,873	21,445	-	192,318
Total primary government	2,210,306	21,445	(1,286,949)	944,802
Discretely presented component				
unit bonds and loans	165,000	-	(55,000)	110,000
Total reporting entity	\$ 2,375,306	\$ 21,445	\$ (1,341,949)	\$ 1,054,802

The full faith and credit of the city has been pledged for the repayment of all bonds and loans payable. There are a number of limitations and restrictions contained in the various bond indentures. The city is in substantial compliance with all significant limitations and restrictions.

Note G - Lease Commitments

The city is obligated under various operating leases for land, vehicles and office equipment. Rent expense for the year ended June 30, 2004 was \$4,130. The city received \$16,146 for the year ended June 30, 2004 from noncancelable leases which has been recorded as rental income.

At June 30, 2004, the remaining future minimum rental payments under the noncancelable operating leases are as follows:

Years ending June 30,	
2005	\$ 3,524
2006	2,337
2007	2,400
2008	2,400
2009	2,400
	\$ 13,061

The remaining future minimum rental income for 2005 through 2007 under noncancelable operating leases are as follows:

Years ending June 30,	
2005	\$ 20,415
2006	13,630
2007	13,630
	\$ 47,675

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note H - Defined Benefit Pension Plan

Description of Plan and Plan Assets

The city is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

Plan members are not required to contribute to the plan. The city is required to contribute at an actuarially determined rate; the current rate is 11.83% to 19.31% of annual covered payroll depending on the plan. The contribution requirements of plan members and the city are established and may be amended by MERS.

Annual Pension Cost

For the year ended June 30, 2004, the city's contributions totaling \$195,830 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases ranging from 0.00% to 4.16% per year and (c) 4.50% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Fiscal Year Ended June 30,	<u>Trend Information</u>		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 213,028	100%	\$ -
2003	195,803	100%	-
2004	195,830	100%	-

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note I - Contingent Liabilities

The city is party to various legal proceedings and claims which normally occur in governmental operations. Although the outcome of these legal proceedings and claims is not presently determinable, it is the opinion of the city's management that the resolution of these matters will not have a material adverse effect on the financial condition of the city.

Note J - Risk Management

The city is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The city manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The city pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The city manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The city pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The city carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note K - State Construction Code Act

P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies or construction board of appeals be intended to bear a reasonable relationship to the actual cost of performing those services.

The city neither collects fees nor incurs costs for activities that fall under P.A. 245 of 1999, section 22(1) of the State Construction Code Act.

CITY OF FREMONT, MICHIGAN

Notes to the Financial Statements - Continued

June 30, 2004

Note L - Excess of Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the city incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Fund	Amended Budget	Amount of Expenditures	Budget Variance
General			
Cemetery	\$ 80,800	\$ 88,365	\$ (7,565)
Buildings and grounds	104,000	104,038	(38)
Public relations	7,400	46,023	(38,623)
Police department	533,861	544,805	(10,944)
Street lighting and sidewalks	394,500	402,522	(8,022)
Major Streets			
Routine maintenance	44,000	52,858	(8,858)
Traffic services	8,005	9,733	(1,728)
Local streets			
Street construction	-	2,224	(2,224)
Traffic services	2,000	2,278	(278)

All expenditures over appropriations have either been paid by transfers from other funds or by the reduction of the current fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FREMONT, MICHIGAN

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2004

	Original Budget	Amended Budget
Revenues		
Property taxes		
Current property taxes	\$ 1,575,030	\$ 1,575,030
Current personal property	1,700	1,700
Industrial facilities	150,810	150,810
Collection fees	14,500	14,500
Total property taxes	1,742,040	1,742,040
Licenses and permits		
Cable television fees	28,500	28,500
Business licenses	2,000	2,000
Other licenses and permits	1,000	1,000
Total licenses and permits	31,500	31,500
Federal grants	-	94,760
State revenues		
State grants	4,850	137,700
State shared revenues	423,000	423,000
Liquor licenses	3,250	3,250
Total state revenues	431,100	563,950
Charges for services		
Tax administration fees	44,000	44,000
Payments in lieu of tax	35,000	35,000
Fire contracts	157,645	157,645
Cemetery fees and grave openings	19,600	19,600
Cemetery lots	7,500	7,500
Refuse fees	150,000	150,000
Other contracted services	1,000	1,000
Total charges for services	414,745	414,745
Fines and penalties	20,500	20,500
Rental income		
City hall	1,200	1,200
Airport	30,840	30,840
Tourist park	95,000	95,000
Land	20,800	20,800
Total rental income	147,840	147,840
Interest	70,000	70,000

Actual	Variance with Amended Budget Positive (Negative)
\$ 1,570,334	\$ (4,696)
2,003	303
150,130	(680)
19,662	5,162
<u>1,742,129</u>	<u>89</u>
23,541	(4,959)
2,205	205
1,563	563
<u>27,309</u>	<u>(4,191)</u>
<u>76,017</u>	<u>(18,743)</u>
5,245	(132,455)
426,802	3,802
3,634	384
<u>435,681</u>	<u>(128,269)</u>
50,722	6,722
34,564	(436)
177,856	20,211
22,658	3,058
13,515	6,015
156,782	6,782
700	(300)
<u>456,797</u>	<u>42,052</u>
<u>65,020</u>	<u>44,520</u>
1,200	-
33,773	2,933
98,665	3,665
22,728	1,928
<u>156,366</u>	<u>8,526</u>
<u>32,506</u>	<u>(37,494)</u>

CITY OF FREMONT, MICHIGAN

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Continued Year Ended June 30, 2004

	Original Budget	Amended Budget
Other		
Contributions from private sources	\$ 5,000	\$ 13,500
Reimbursements	11,000	20,714
Sale of land	-	-
Miscellaneous	4,775	4,775
Total other	20,775	38,989
Total revenues	2,878,500	3,124,324
Expenditures		
Legislative	17,500	17,500
General government		
Executive	84,300	84,300
Elections	3,100	3,600
Assessor	30,200	115,200
Board of review	800	800
Attorney	25,000	35,000
City clerk	89,500	89,500
Treasurer	52,600	52,600
General administration	4,500	4,500
Cemetery	80,800	80,800
Building and grounds	97,000	104,000
Public relations	16,200	7,400
Total general government	484,000	577,700
Public safety		
Police department	515,450	533,861
Fire department	209,350	234,350
Planning and zoning	103,700	58,700
Total public safety	828,500	826,911
Public works		
Street lighting and sidewalks	335,500	394,500
Sanitation	178,000	195,000
Total public works	513,500	589,500
Recreation and culture	136,500	136,500

Actual	Variance with Amended Budget Positive (Negative)
\$ 30,897	\$ 17,397
28,433	7,719
19,770	19,770
3,653	(1,122)
82,753	43,764
3,074,578	(49,746)
14,845	2,655
81,812	2,488
3,383	217
24,297	90,903
540	260
33,821	1,179
79,477	10,023
49,452	3,148
3,252	1,248
88,365	(7,565)
104,038	(38)
46,023	(38,623)
514,460	63,240
544,805	(10,944)
230,923	3,427
53,888	4,812
829,616	(2,705)
402,552	(8,052)
194,998	2
597,550	(8,050)
127,881	8,619

CITY OF FREMONT, MICHIGAN

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Continued Year Ended June 30, 2004

	Original Budget	Amended Budget
Other governmental functions		
Employee fringe benefits and other items		
Payroll taxes	\$ 92,650	\$ 117,650
General liability insurance	71,000	71,000
Health and accident insurance	221,000	221,000
Workers compensation insurance	18,200	18,200
Retirement	165,000	165,000
Professional services	15,000	15,000
Refunds and rebates	-	23,300
Miscellaneous	5,000	5,000
Total employee fringe benefits and other items	587,850	636,150
Airport operations	36,500	106,500
Parking systems	15,300	15,300
Community and economic development	50,500	13,500
Total other governmental functions	690,150	771,450
Capital outlay		
General government	42,700	44,700
Public safety	37,090	121,850
Public works	8,000	18,714
Recreation and culture	70,000	20,000
Other governmental functions	5,000	-
Total capital outlay	162,790	205,264
Debt service		
Principal	23,304	23,304
Interest and fiscal charges	12,336	12,336
Total debt service	35,640	35,640
Total expenditures	2,868,580	3,160,465
Excess (deficiency) of revenues over expenditures	9,920	(36,141)

Actual	Variance with Amended Budget Positive (Negative)
\$ 92,553	\$ 25,097
61,538	9,462
231,982	(10,982)
26,652	(8,452)
153,456	11,544
13,384	1,616
23,260	40
1,710	3,290
604,535	31,615
35,744	70,756
14,377	923
6,095	7,405
660,751	110,699
35,064	9,636
109,759	12,091
20,911	(2,197)
19,777	223
-	-
185,511	19,753
23,304	-
7,411	4,925
30,715	4,925
2,961,329	199,136
113,249	149,390

CITY OF FREMONT, MICHIGAN

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Continued Year Ended June 30, 2004

	Original Budget	Amended Budget
Other financing sources (uses)		
Transfers in	\$ 32,000	\$ 32,000
Transfers out	(60,260)	(428,258)
Total other financing uses	(28,260)	(396,258)
Deficiency of revenues and other sources under expenditures and other uses	(18,340)	(432,399)
Fund balances at beginning of year	1,678,067	1,678,067
Fund balances at end of year	\$ 1,659,727	\$ 1,245,668

Actual	Variance with Amended Budget Positive (Negative)
\$ 33,291	\$ 1,291
(428,258)	-
(394,967)	1,291
(281,718)	150,681
1,678,067	-
\$ 1,396,349	\$ 150,681

CITY OF FREMONT, MICHIGAN

Major Streets Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2004

	Original Budget	Amended Budget
Revenues		
State revenues		
Gas and weight tax distributions	\$ 237,000	\$ 237,000
Trunkline maintenance reimbursements	32,600	32,600
Total state revenues	269,600	269,600
Interest	5,000	5,000
Other	50,000	50,000
Total revenues	324,600	324,600
Expenditures		
Current		
Public works		
Trunkline maintenance	32,600	32,600
Street construction	-	65,000
Routine maintenance	44,000	44,000
Traffic services	5,700	8,005
Winter maintenance	20,500	20,500
Total expenditures	102,800	170,105
Excess of revenues over expenditures	221,800	154,495
Other financing uses		
Transfers out	(284,000)	(219,000)
Deficiency of revenues under expenditures and other uses	(62,200)	(64,505)
Fund balances at beginning of year	439,114	439,114
Fund balances at end of year	\$ 376,914	\$ 374,609

<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
\$ 255,178	\$ 18,178
28,047	(4,553)
<u>283,225</u>	<u>13,625</u>
1,902	(3,098)
56,638	6,638
<u>341,765</u>	<u>17,165</u>
21,840	10,760
51,167	13,833
52,858	(8,858)
9,733	(1,728)
20,177	323
<u>155,775</u>	<u>14,330</u>
185,990	31,495
<u>(209,000)</u>	<u>10,000</u>
(23,010)	41,495
<u>439,114</u>	<u>-</u>
<u>\$ 416,104</u>	<u>\$ 41,495</u>

CITY OF FREMONT, MICHIGAN

Local Streets Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2004

	Original Budget	Amended Budget
Revenues		
State revenues		
Gas and weight tax distributions	\$ 85,000	\$ 85,000
Metro Act	15,000	15,000
Total state revenues	100,000	100,000
Interest	1,500	1,500
Total revenues	101,500	101,500
Expenditures		
Current		
Public works		
Street construction	-	-
Routine maintenance	47,000	57,000
Traffic services	2,000	2,000
Winter maintenance	25,500	25,500
Total expenditures	74,500	84,500
Excess of revenues over expenditures	27,000	17,000
Other financing sources (uses)		
Transfers in	94,500	277,348
Transfers out	(355,000)	(369,000)
Total other financing uses	(260,500)	(91,652)
Deficiency of revenues and other sources under expenditures and other uses	(233,500)	(74,652)
Fund balances at beginning of year	250,913	250,913
Fund balances at end of year	\$ 17,413	\$ 176,261

Actual	Variance with Amended Budget Positive (Negative)
\$ 89,924	\$ 4,924
13,787	(1,213)
103,711	3,711
-	(1,500)
103,711	2,211
2,224	(2,224)
53,250	3,750
2,278	(278)
23,641	1,859
81,393	3,107
22,318	5,318
277,348	-
(369,000)	-
(91,652)	-
(69,334)	5,318
250,913	-
\$ 181,579	\$ 5,318

CITY OF FREMONT, MICHIGAN

Local Improvement Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2004

	Original Budget	Amended Budget
Revenues		
Interest	\$ 17,920	\$ 17,920
Other		
Special assessments	5,000	5,000
Total revenues	22,920	22,920
Other financing uses		
Transfers out	(110,000)	(110,000)
Deficiency of revenues under other uses	(87,080)	(87,080)
Fund balances at beginning of year	746,975	746,975
Fund balances at end of year	\$ 659,895	\$ 659,895

Actual		Variance with Amended Budget Positive (Negative)	
\$	10,361	\$	(7,559)
	66,033		61,033
	76,394		53,474
	(108,724)		1,276
	(32,330)		54,750
	746,975		-
\$	714,645	\$	54,750

CITY OF FREMONT, MICHIGAN

Schedule of Funding Progress

Municipal Employees Retirement System of Michigan

June 30, 2004

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	\$ 4,111,408	\$ 5,391,496	\$ (1,280,088)	76%	\$ 1,129,979	113%
2002	4,242,702	5,665,687	(1,422,985)	75%	1,198,280	119%
2003	4,546,889	6,101,872	(1,554,983)	75%	1,217,052	128%

SUPPLEMENTAL FINANCIAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Arboretum Park Fund - To account for income from an endowment held by the local foundation that is to be used for maintenance of the city's parks.

DEBT SERVICE FUND

Debt service funds are used to record the funding and payment of principal, interest and related costs on general long-term debt.

City of Fremont Building Authority - To account for the accumulation of resources and the payment of principal and interest on the 1992 Building Authority Bonds.

PERMANENT FUND

Permanent funds are those where the principal may not be expended.

Cemetery Perpetual Care Fund - To account for charges for services collected and investment income earned and to account for transfers to the general fund to partially cover cemetery perpetual care expenses.

CITY OF FREMONT, MICHIGAN

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2004

	Special Revenue	Debt Service
	Arboretum Park	Building Authority
ASSETS		
Cash and cash equivalents	\$ 692	\$ 24,041
Investments	627	-
TOTAL ASSETS	\$ 1,319	\$ 24,041
FUND BALANCES		
Reserved for perpetual care	\$ -	\$ -
Unreserved		
Undesignated	1,319	24,041
TOTAL FUND BALANCES	\$ 1,319	\$ 24,041

<u>Permanent</u>			
Cemetery			
Perpetual			
Care		Total	
\$	133,846	\$	158,579
	121,175		121,802
<hr/>			
\$	255,021	\$	280,381
<hr/>			
\$	255,021	\$	255,021
	-		25,360
<hr/>			
\$	255,021	\$	280,381
<hr/>			

CITY OF FREMONT, MICHIGAN

Non-Major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2004

	Special Revenue	Debt Service
	Arboretum Park	Building Authority
Revenues		
Local grants and contributions	\$ 24,725	\$ -
Charges for services	-	-
Interest	10	327
Total revenues	24,735	327
Expenditures		
Debt service		
Principal	-	175,000
Interest and fiscal charges	-	36,800
Total expenditures	-	211,800
Excess (deficiency) of revenues over expenditures	24,735	(211,473)
Other financing sources (uses)		
Transfers in - component units	-	211,576
Transfers out	(24,725)	-
Total other financing sources (uses)	(24,725)	211,576
Excess of revenues and other sources over expenditures and other uses	10	103
Fund balances at beginning of year	1,309	23,938
Fund balances at end of year	\$ 1,319	\$ 24,041

<u>Permanent Cemetery Perpetual Care</u>		<u>Total</u>	
\$	-	\$	24,725
	13,515		13,515
	8,487		8,824
	<u>22,002</u>		<u>47,064</u>
	-		175,000
	-		<u>36,800</u>
	-		<u>211,800</u>
	22,002		(164,736)
	-		211,576
	<u>(8,566)</u>		<u>(33,291)</u>
	<u>(8,566)</u>		<u>178,285</u>
	13,436		13,549
	<u>241,585</u>		<u>266,832</u>
\$	<u>255,021</u>	\$	<u>280,381</u>

AGENCY FUND

Agency funds are used to account for assets held by the city in a trustee capacity for individuals, private organizations, other governments or other funds.

Trust and Agency Fund - To account for the collections and disbursements of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

CITY OF FREMONT, MICHIGAN

Agency Fund

Statement of Changes in Assets and Liabilities

June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
TRUST AND AGENCY FUND				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 184,240	\$ 5,937,373	\$ 6,117,204	\$ 4,409
Investments	130,056	-	126,065	3,991
Accounts receivable	469	3,760	3,822	407
Due from other governmental units	-	192,240	185,451	6,789
TOTAL ASSETS	\$ 314,765	\$ 6,133,373	\$ 6,432,542	\$ 15,596
<u>LIABILITIES</u>				
Accounts payable	\$ 10,896	\$ 24,233	\$ 24,685	\$ 10,444
Due to other governmental units	303,869	5,679,807	5,978,524	5,152
TOTAL LIABILITIES	\$ 314,765	\$ 5,704,040	\$ 6,003,209	\$ 15,596

SCHEDULE OF INDEBTEDNESS

CITY OF FREMONT, MICHIGAN

Schedule of Indebtedness

June 30, 2004 and 2003

	Date of Issue	Amount of Issue
Governmental Activities Bonds and Loans Payable		
1992 Building Authority Revenue Bonds	1992	\$ 2,350,000
2000 Installment Sales Contract (Firing Range Equipment)	2000	116,000
1999 Installment Sales Contract (Fire Tanker)	1999	133,878
2003 Installment Sales Contract (Fire Truck)	2003	169,000
Total Governmental Activities Bonds and Loans Payable		
Business-Type Activities Bonds and Loans Payable		
1992 Water Supply System Revenue Bonds	1992	2,275,000
Total Business-Type Activities Bonds and Loans Payable		
Total Primary Government Bonds and Loans Payable		
Discretely Presented Component Unit Bonds and Loans Payable		
1993 LDFA Revenue Bonds	1993	855,000
Total Discretely Presented Component Units Bonds and Loans Payable		
Total Reporting Entity Bonds and Loans Payable		

Interest Rate	Date of Maturity	Balance Outstanding June 30,		Annual Interest Payable
		2003	2004	
5.75 %	6-1-04	\$ 175,000	\$ -	\$ -
5.75	6-1-05	175,000	175,000	26,062
4.00	6-1-06	200,000	200,000	16,000
4.00	6-1-07	200,000	200,000	8,000
		<u>750,000</u>	<u>575,000</u>	<u>50,062</u>
5.20	7-1-03	23,304	-	-
	7-1-04	23,776	23,776	2,019
		<u>47,080</u>	<u>23,776</u>	<u>2,019</u>
4.75	9-1-03	22,947	-	-
	9-1-04	24,464	25,501	801
		<u>47,411</u>	<u>25,501</u>	<u>801</u>
2.50	6-1-04	40,698	-	-
	6-1-05	41,716	41,716	3,208
	6-1-06	42,759	42,759	2,165
	6-1-07	43,827	43,732	1,096
		<u>169,000</u>	<u>128,207</u>	<u>6,469</u>
		<u>1,013,491</u>	<u>752,484</u>	<u>59,351</u>
6.10	8-1-03	175,000	-	-
6.15	8-1-04	200,000	-	-
6.20	8-1-05	200,000	-	-
6.25	8-1-06	225,000	-	-
6.30	8-1-07	225,000	-	-
		<u>1,025,000</u>	<u>-</u>	<u>-</u>
		<u>2,038,491</u>	<u>752,484</u>	<u>59,351</u>
5.60	4-1-04	55,000	-	-
5.70	4-1-05	55,000	55,000	6,326
5.80	4-1-06	55,000	55,000	3,190
		<u>165,000</u>	<u>110,000</u>	<u>9,516</u>
		<u>\$ 2,203,491</u>	<u>\$ 862,484</u>	<u>\$ 68,867</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of the
City Council of the City of Fremont, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Fremont, Michigan's basic financial statements and have issued our report thereon dated October 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fremont, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Fremont, Michigan, in a separate letter dated October 19, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fremont, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hoffman, Steensma & Plamondon, P.L.C.
October 19, 2004

CITY OF FREMONT, MICHIGAN

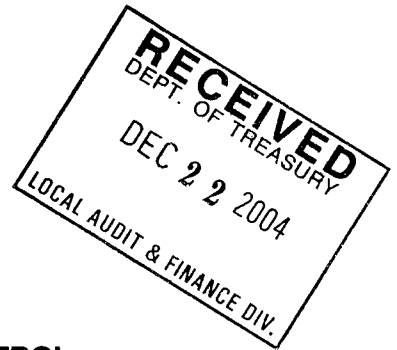
Schedule of Expenditures of Federal and Other Awards Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued (Deferred) Revenue July 1, 2003
U.S. Department of Transportation				
Federal Aviation Administration				
Airport Improvement Program (1)				
Passed through Michigan Department of Transportation				
Fed Proj B-26-0035-0302 (3)	20.106	2003-0088	\$ 64,800	\$ -
Fed Proj B-26-0035-0402 (3)	20.106	2003-0573	321,300	-
Fed Proj B-26-0035-0704 (3)	20.106	2004-0262	63,000	-
Total U.S. Department of Transportation			449,100	-
U.S. Department of Homeland Security				
Assistance to Firefighters Grant	97.044	N/A	85,275	-
Total Federal and Other Assistance			\$ 534,375	\$ -

NOTES

1. Airport Improvement Program was the major program.
2. The above schedule was prepared on the accrual basis of accounting.
3. These programs are administered by the Michigan Department of Transportation and federal compliance reports of these programs are included in the single audit of MDOT.

Current Year Revenues Received		Current Year Revenues Expended		Accrued (Deferred) Revenue June 30, 2004
Federal Grants	Other Sources	Federal Grants	Other Sources	
\$ 64,800	\$ 3,600	\$ 64,800	\$ 3,600	\$ -
321,300	35,700	321,300	35,700	-
-	12,416	63,000	12,416	63,000
386,100	51,716	449,100	51,716	63,000
76,017	8,446	76,017	8,446	-
\$ 462,117	\$ 60,162	\$ 525,117	\$ 60,162	\$ 63,000



CITY OF FREMONT, MICHIGAN
REPORT ON INTERNAL ACCOUNTING CONTROL
AND
MANAGEMENT ADVISORY COMMENTS

June 30, 2004

CITY OF FREMONT, MICHIGAN

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To the City Council
City of Fremont, Michigan

In planning and performing our audit of the financial statements of the City of Fremont, Michigan for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the ability of the organization to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described on pages 5 or 6 are believed to be a material weakness.

This report is intended solely for the information and use of city council, management and others within the organization.

Hoffman, Steensma & Plamondon, P.L.C.

October 19, 2004

REPORTABLE CONDITIONS

CITY OF FREMONT, MICHIGAN

Reportable Conditions

June 30, 2004

PRIOR YEAR RECOMMENDATIONS

Cash Disbursements

In the prior year, we noted that certain disbursements showed no evidence of approval by an appropriate level of management prior to payment and were not consistently stamped "paid" or defaced in such a way as to indicate payment. We recommended that all disbursements be approved by an appropriate member of management, and that the approval be evidenced by a signing or initialing of the invoice. We also recommended that all paid invoices be stamped "paid" or defaced in a consistent manner to prevent double payment of specific invoices. These recommendations were not acted upon.

CURRENT YEAR RECOMMENDATIONS

REPORTABLE CONDITIONS

Certificates of Deposit

During our examination, we noted that certificates of deposit were not adjusted at year end for interest income accrued on the balance. We recommend that all certificates of deposit balances be adjusted to account for accrued interest income on a regular basis.

Signature Stamp

During our examination, we noted that the signature stamp for signing checks was not completely secure. We recommend that security of the signature stamp be reviewed or that the checks be hand signed.

Bank Statements

During our examination, we noted that the employees who are involved in the disbursement process also open the monthly bank statements. We recommend that someone other than the employees involved in the disbursement process receive the monthly bank statements unopened and review the statements along with copies of all canceled checks.

Employee Borrowing of City Owned Equipment

During our examination, we noted that the city has an informal policy allowing employees to borrow city owned equipment. This policy is in conflict with the State of Michigan constitution. We recommend that the city prohibit the personal use of all city owned property.

Cash Disbursements

During our examination, we noted that certain cash disbursements were made from monthly statements. We recommend that all cash disbursements be made from the itemized invoices.

CITY OF FREMONT, MICHIGAN

Reportable Conditions - Continued

June 30, 2004

CURRENT YEAR RECOMMENDATIONS (continued)

REPORTABLE CONDITIONS (continued)

Employee Reimbursements

During our examination, we noted that certain employee reimbursements were not reviewed and approved by an appropriate member of management or the council. We recommend that all reimbursements be reviewed and approved by an appropriate member of management or the council other than the employee receiving the reimbursement.

Recording of Accrued Payroll

During our examination, we noted that the city did not calculate or record an amount for payroll expense accrued at year end. We recommend that the city calculate and record the salaries and wages earned but not paid at year end.